



# INTERNAL AUDIT FINANCIAL RELATED POLICE DEPARTMENT CASH FUNDS

April 4, 2005

Roanoke City Council Audit Committee  
Roanoke, Virginia

We have audited the accompanying Statement of Cash Receipts and Disbursements for the Twelve Months Ended June 30, 2004. This financial statement is the responsibility of the Police department administration. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 on page 6, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

## **BACKGROUND**

The Commission on Accreditation for Law Enforcement Agencies (CALEA) requires police departments to establish written directives governing the maintenance of all cash fund accounts. At a minimum, departments must have the following.

- A ledger system that identifies initial balances, cash received and disbursed, and ending balances
- Records or documentation for cash received
- Authorization for disbursements
- Documentation requirements for expenditures
- Positions authorized to disburse or accept cash
- Quarterly accounting of agency cash activities

In the City of Roanoke, the Police department maintains four cash funds. The Chief of Police maintains an emergency fund checking account from which cash can be quickly obtained to fund unanticipated expenses, such as travel expenses for extraditions. The Police department also maintains a checking account for federal drug funds in which the City's proceeds from drug crime property forfeitures are deposited. The federal drug

fund money is used to fund ongoing undercover operations conducted by the Vice unit. The Vice unit also maintains a "Flash and Buy" fund that was established by court order for use in drug investigations. This money is kept as cash at the Police department and used by Vice officers in those cases involving a buy and an immediate arrest. The money is then recovered and returned to the cash fund. The fourth cash fund held by the department is a small petty cash fund used for small administrative expenses such as postage. The accreditation standards require that these funds be independently audited on an annual basis. Additionally, the Police department assesses fees for the following services it performs for the public.

- Verifications of police reports
- Reproductions of documents and photos
- Background checks on persons dealing in second-hand gems and precious metals (i.e., Gold Permits)
- Background checks on persons applying for designation as conservators of the peace
- Transporting and boarding lost animals
- Towing and storing illegally parked or abandoned vehicles

The department also assesses the recently enacted false alarm fees and DUI recovery program fees. All of the fees noted were established by City ordinance and are specified in the City's fee compendium maintained by the Department of Finance.

Another area that generates fees is the Roanoke Police Academy. The Academy provides both free and fee-based training for sworn officers. The Academy is responsible for collecting registration fees from those persons enrolling in classes who are not city employees and are not covered under other formal agreements with the City. All fees collected by the Academy are deposited with the City Treasurer in accordance with City Administrative Procedures.

## **SCOPE**

We audited the receipts and disbursements reported for the Chief's Emergency Fund, the Federal Drug Fund, the Petty Cash Fund, and the Flash and Buy Fund for the 12 months ended June 30, 2004. We also examined the fees assessed and collected for report verifications, gold permits, conservators of the peace licenses, vehicle towing and storage, animal control, training, false alarms, and the DUI recovery program for the 12 months ending June 30, 2004.

## **METHODOLOGY**

We performed a study of the system of internal controls to the extent necessary to properly plan our test work. Our testing included preparing proofs of cash for the Chief's Emergency Fund and the Federal Drug Fund to ensure withdrawal and deposit activity reported by the bank agreed to that reported in the department's records. We verified proceeds reported by the Federal Drug Enforcement Administration (DEA) as having been paid to the City of Roanoke were deposited in the Federal Drug Fund

account. We also examined a sample of expenditures from the Federal Drug Fund account and verified each was adequately supported and appropriate. For those expenditures in our sample that involved drug buys, we verified that the drugs were remitted to the property room for safe keeping. We also accounted for the balances remaining in the Petty Cash and Flash/Buy funds by reconciling the balances to the cash on hand and expenditure receipts. We evaluated the appropriateness of expenditures based on department policies and authorizations. We performed sample testing on the underlying records supporting the various fees assessed by the Police department. A sample of permits and licenses were tested to verify proper records existed to support issuance and to verify the proper fees were assessed and collected. Fees waivers were reviewed for appropriateness and proper authorization.

## **RESULTS**

### **Finding 01 – Gold Permits**

Virginia State Code §54.1-4108 requires that persons engaged in the business of purchasing secondhand precious metals or gems apply annually with the chief local law enforcement officer for a permit authorizing them to conduct such business. The application fee is \$200 and is required to be paid regardless of whether a permit is authorized or denied. The purpose of requiring permits is to ensure persons dealing in precious metals have not been convicted of any felonies and to ensure their weighing devices have been inspected.

Based on available records, only four businesses applied for gold permits in fiscal year 2004. The application fees were not billed as required by policy and do not appear to have been collected.

### **Agreed Upon Action Plan 01 – Gold Permits**

The Police department will contact all businesses listed in the phone book that potentially deal in second hand gems and precious metals. Additionally, the Police department has asked the Circuit Court and Commissioner of the Revenue to notify the police when a new pawn shop opens for business so that the business can be contacted about the need for a permit. The Police department plans to develop and maintain a database for administering gold permits.

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### **Finding 02 – Police Academy Training**

We identified \$1,675 in course fees that were not collected from persons from outside organizations who received training at the Police Academy. We also identified course fees that were waived for specific localities without documentation to justify the waivers. We determined that the waivers were appropriate and were authorized by the Major responsible for the Academy. We observed that there are no formal, documented procedures that incorporate adequate controls to ensure course fees are properly assessed, paid, and accounted for throughout the year. One of the localities contacted

by the Auditing department subsequently remitted a payment for \$1,500 to the City.

### **Agreed Upon Action Plan 02 – Police Academy Training**

The Police department will establish documented procedures for administering course registration and accounting. Fee waivers will be supported by written justifications with signed approval by the Chief or his designee. A file for each course will be created and contain the following.

- Training announcement that provides a course description detailing the dates and fees
- Registration forms completed by persons enrolling in the course
- Final roster showing persons who attended the course
- Collection reports listing the payments received from enrollees and verifying the deposit of funds with the City Treasurer's office
- Approval of fee waivers, if applicable

The Academy Secretary will be responsible for keeping a registration list and ensuring all registrants pay the required fees.

Please see the attached memorandum from the Chief of Police (Attachment 1).

### **Conclusion**

In our opinion, the attached Statement of Cash Receipts and Disbursements presents fairly, in all material respects, the cash transactions of the Police department's cash funds for the year ended June 30, 2004.

We would like to thank the Police department for its cooperation and assistance throughout the audit.

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Cheryl D. Ramsey  
Auditor

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Michael J. Tuck, CPA, CGAP  
Assistant Municipal Auditor

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Drew Harmon, CPA, CIA  
Municipal Auditor

**POLICE CASH FUNDS**  
**Statement of Cash Receipts and Disbursements**  
**Twelve Months Ended**  
**June 30, 2004**

<u>Fund</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
Flash and Buy	\$2,660	\$0	\$0	\$2,660
Federal Drug Fund	\$16,540	\$25,225	\$28,562	\$13,203
Chief's Emergency Fund	\$1,843	\$0	\$100	\$1,743
Petty Cash Fund	<u>\$194</u>	<u>\$0</u>	<u>\$94</u>	<u>\$100</u>
Totals	<u>\$21,237</u>	<u>\$25,225</u>	<u>\$28,756</u>	<u>\$17,706</u>

See Notes to Financial Statement.

**POLICE CASH FUNDS**  
**Notes to Financial Statements**  
**Twelve Months Ended**  
**June 30, 2004**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities:*

Flash and Buy monies are used in drug investigations when it is known that the cash will not be lost.

Federal Drug Fund monies are used for purchases made by officers in conducting investigations. The monies may be used for the purchase of props, gas for undercover operations, purchases of drugs from suspects, and other similar uses.

Chief's Emergency Fund monies are used for unexpected expenses that are required immediately.

The Petty Cash Fund is maintained for the purchase of inexpensive items that are needed immediately.

*Basis of Presentation:*

The Police department maintains its financial records in accordance with the cash receipts and disbursements method of accounting. Revenue from all sources is recognized when received. Likewise, expenses are recognized when actually paid. Accordingly, there is no recognition of accounts receivable, accounts payable, or accruals.

**Note 2. DEPOSITS**

At June 30, 2004, the total cash on hand and in bank accounts had a balance of \$17,706. At June 30, 2004, the cash in bank accounts had a balance of \$8,436 which was covered by the Federal Deposit Insurance Corporation (FDIC).

**POLICE CASH FUNDS**  
**Schedule of Collected Fees**  
**Twelve Months Ended**  
**June 30, 2004**

<b>Fee:</b>	<b>(\$)</b>	<b>Collected:</b>
Conservators of the Peace Investigations	1,172	
Duces Tecum Requests	149	
DUI Recovery Program	12,700	
False Alarm Registration	18,200	
False Alarm Fees/Violations	45,400	
Police Training	5,275	
Gold Permits	0	
Report Verifications	21,670	
SPCA	21,112	
Vehicle Towing/Storage	3,853	
Total:	129,531	

**REQUIRED COMMUNICATIONS****System of Internal Controls**

The Police department is responsible for establishing and maintaining a system of internal controls. In fulfilling this responsibility, judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of a system of internal controls is to provide the Police department with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with the Chief's authorization, and that transactions are accurately recorded.

As part of our examination, we evaluated the system of internal controls to the degree necessary to plan the nature, timing, and extent of our test work. Our evaluation would not necessarily disclose all material weaknesses in the system of internal controls. Accordingly, we do not express an opinion on the system of internal controls.

**Compliance with Laws and Regulations**

Compliance with laws and regulations applicable to the cash funds maintained by the Police department is the responsibility of the Chief of Police. As part of obtaining reasonable assurance about whether the financial records were free of material misstatements, we performed tests to verify compliance with certain provisions of laws and regulations as set out in the Code of Virginia, Code of the City of Roanoke, and operational directives of the Police department. Our objective was not to provide an opinion on overall compliance with applicable laws and regulations. Accordingly, we do not express such an opinion.





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## **MEMORANDUM**

**DATE:** March 3, 2005  
**TO:** Drew Harmon, Municipal Auditor  
**FROM:** A. L. Gaskins, *[Signature]* Chief of Police  
**SUBJECT:** Audit Report

I have reviewed the findings reported in the recent Cash Fund Audit conducted by your office. I would like to provide updates on actions taken by the department to address the two findings. I would like to thank you and your staff for conducting the audit and providing our department with feedback on our funds handling procedures.

### **Finding 01– Gold Permits**

As a result of mailings sent to businesses to determine if they fall under the requirements of Virginia State Code 54.1–4108 the department has issued seven (7) Gold Permits as of March 3, 2005. These permits were issued after the businesses had complied with the code requirements and paid the required fee. Two (2) additional businesses are being investigated as to their status within the code. A data base and review process has been placed in effect in our Records Bureau.

### **Finding 02– Police Academy Training**

The Police Academy has generated a procedure to address the training classes that require outside billing. A file will be kept on each course that meets this requirement with all deposits being made through the office of the Budget Analysis.

The waiver of training fees addressed in the audit were found to be appropriate and approved by the division Major. These waivers were the result of a working agreement with the other agencies where they had either provided instructors for our academy or free slots in training sessions that they had offered at their departments. All future waivers will have appropriate documentation and signatures of approval.